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FOR MCC CEO JOHN J. DANILOVICH FROM AMBASSADOR KLEMM

E.O. 12958: N/A

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SUBJECT: TIMOR-LESTE EAGER TO BEGIN WORK ON MCC COMPACT AND
REMEDIATION

¶1. (SBU) Embassy Dili welcomes and is ready to support the initiation on March 25 of discussions between MCC Vice President John Hewko and his team, and senior members of the government of Timor-Leste (GOTL) on a potential MCC Compact as well as Timor's remediation process. The March 25 teleconference will launch a series of meetings that will hopefully include a reintroduction trip by an MCC team to Dili in April 2008.

¶2. (SBU) Since delivering your December 21, 2007, letter regarding Timor-Leste's reselection as a MCC compact eligible country to Prime Minister Xanana Gusmao, I have had many meetings with senior GOTL officials regarding a possible MCC Compact. My interlocutors have included President Jose Ramos Horta, Interim President Lasama de Araujo, Vice Prime Minister Guterres, Foreign Minister Da Costa and, repeatedly, Finance Minister Pires, Infrastructure Minister Lay and MCC Compact Negotiator Saldanha. All have told me - ceaselessly and uniformly - that they are grateful that Timor remains compact eligible because the MCC will help them both achieve urgent policy reform and boost Timor's economic and social development.

Finance Minister Pires, responsible for Timor-Leste's remediation program, has expressed nothing but eagerness to begin discussions with MCC staff in order to use those consultations to speed needed reforms and quicken the improvement in Timor's policy performance. Indeed, she shared with me weeks ago her disappointment that mutual scheduling conflicts have delayed the opening round of discussions until late-March.

¶3. (SBU) The tragic events of February 11 did nothing to shake this resolve. In contrast to previous political crises in Timor, most notably the 2006 upheaval that saw the collapse of its security services and most of the central government, Timor-Leste's governing institutions performed remarkably well after 2/11. The Prime Minister, demonstrating great personal courage, and his ministers quickly convened the appropriate government councils, consulted with parliament, spoke to the public, and implemented proportionate measures. With few exceptions, actions taken since 2/11 have been meticulous in their adherence to the constitution and law. Instead of openly and fatally feuding as in 2006, the military and police established a joint command to bring the perpetrators to justice. There has been a strong consensus across the political spectrum in support of the government's actions to date. Dili and the remainder of the country have remained remarkably calm, business quickly returned to normal and crime fell to record lows.

¶4. (SBU) Similarly, the government never hesitated after 2/11 in pursuing its development agenda or tackling other priorities. I met with the Finance Minister just days after the 2/11 attacks and she was wholly focused on her work - including preparing for discussions with the MCC. A major conference hosted by the

government for its multi- and bilateral development partners will take place as scheduled on March 27-29 in Dili. The government is using the event to define its policy priorities for 2008 and seek donor support. A draft policy matrix identifies priority areas that resemble the MCC's policy categories: ruling justly (for Timor, "clean and effective government" and "public safety and security"), investing in people ("improving social service delivery," and "addressing the needs of the youth") and economic freedom ("employment and income generation"). The policy matrix also highlights the government's intent to effectively resolve two other major issues stemming from the 2006 crisis: reintegration of thousands of families from IDP camps back into society, and dealing with some 600 former members of the military that seek redress for past grievances.

¶15. (SBU) Instead of grinding to a halt as the result of February 11, Timor's leaders recognize that their efforts to improve public services, fully realize the rule of law and boost investment in education, health and social infrastructure must if anything accelerate. February 11 was a reminder not only of serious unresolved political conflicts dating from 2006 and earlier, but also of the dire social and economic conditions in Timor - its extreme poverty and lack of development - that helped generate those political conflicts. Consequently, the GOTL's council of ministers since 2/11 has without delay approved and sent to parliament a sweeping tax reform package to boost Timor's business environment, reviewed laws and regulations governing the media and telecommunications sector, and passed laws to finally give full legal standing to a number of ministries and departments. Its policy priorities for 2008 include the submission to parliament of a land law and the creation of a property registry toward the full extension of property rights; investment in the prosecutor general's office to reduce a debilitating case backlog and improve access to the formal justice sector; and steps to improve budgeting, budget

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execution and accountability, including the rationalization of the government's three agencies charged with combating corruption.

¶16. (SBU) At this moment of Timor-Leste's heightened vulnerability, it is my view and that of my mission that the U.S. also should maintain -- if not accelerate -- our extensions of concrete support. We just launched two major USAID programs, one to extend property rights and another to provide job skills and employment to youth in the districts, to boost the prospects of economic development and support MCC goals. We will be applying for DOD 1210 funding to fill a major financial and activity gap in the GOTL's plan to provide housing for IDPs. Accordingly, we strongly encourage the Millennium Challenge Corporation to engage as expeditiously as possible with the GOTL to remediate its policy performance and negotiate a compact. Minister Pires and her team have suggested they are seriously looking at using MCC support - if they are able to qualify for a compact - to build out a national road network. If undertaken, such a project would have enormous economic and social benefits, none the least enabling Timorese farmers to bring their surplus production to market and creating much needed employment.

¶17. (SBU) Ambassador Danilovich, Embassy Dili eagerly waits to support you and your Timor-Leste team. Please do not hesitate to let me know how I can personally assist.

RECTOR
KLEMM